

# **State of Alaska FY2007 Governor's Operating Budget**

## **Department of Revenue APFC Operations Component Budget Summary**

## Component: APFC Operations

### Contribution to Department's Mission

The mission of the Alaska Permanent Fund Corporation is to maximize the value of the Permanent Fund within return objectives.

### Core Services

- Investment management for Fund assets
- Provide public information on Fund activities and issues

End Results	Strategies to Achieve Results
<b>A: Maximize the value of the Fund</b>  <u>Target #1:</u> A long-term 5% real rate of return <u>Measure #1:</u> Real rate of return over time	<b>A1: Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return</b>  <u>Target #1:</u> The Fund's rate of return meets or exceeds the composite investment performance benchmark adopted by the Board <u>Measure #1:</u> The Fund's rate of return versus the investment performance benchmark  <b>A2: Control operation and investment management expenses</b>  <u>Target #1:</u> APFC expenses are within the lower 25th percentile of cost to assets managed compared to similar funds <u>Measure #1:</u> APFC ratio of cost to assets managed compared to similar funds
End Results	Strategies to Achieve Results
<b>B: Provide Alaskans with complete and timely information on Fund activities and issues</b>  <u>Target #1:</u> Meet 100% of statutory and communication plan guidelines for disseminating information <u>Measure #1:</u> % of communication target objectives completed	<b>B1: Develop and implement an annual communications plan</b>  <u>Target #1:</u> Complete 100% of the tasks in the communications plan <u>Measure #1:</u> % of communications plan tasks completed

### Major Activities to Advance Strategies

- |                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Contract with external investment managers for specific expertise for stocks, bonds, and real estate</li> <li>• Internal bond portfolio management</li> <li>• Daily, monthly, quarterly, and annual performance and compliance reports</li> <li>• Renegotiate fees on an ongoing basis</li> </ul> | <ul style="list-style-type: none"> <li>• Prepare reports, newspaper inserts and other publications</li> <li>• Maintain web site and keep content up-to-date</li> <li>• Research evolving alternative investment strategies</li> <li>• Respond to media and public inquiries</li> </ul> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## FY2007 Resources Allocated to Achieve Results

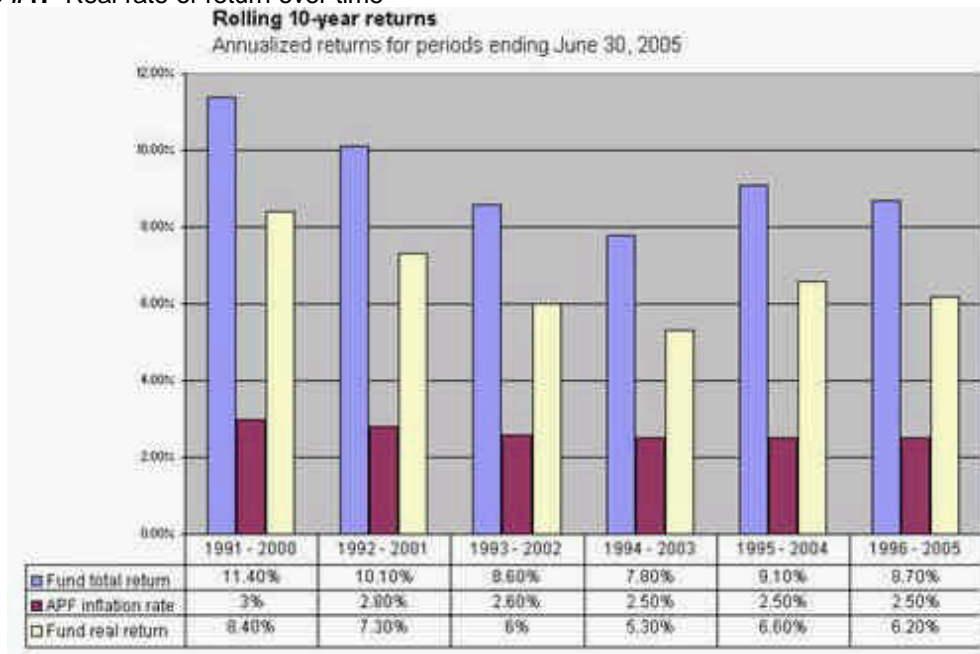
FY2007 Component Budget: \$8,427,000

## Personnel:

Full time	34
Part time	0
<b>Total</b>	<b>34</b>

## Performance Measure Detail

## A: Result - Maximize the value of the Fund

**Target #1:** A long-term 5% real rate of return**Measure #1:** Real rate of return over time

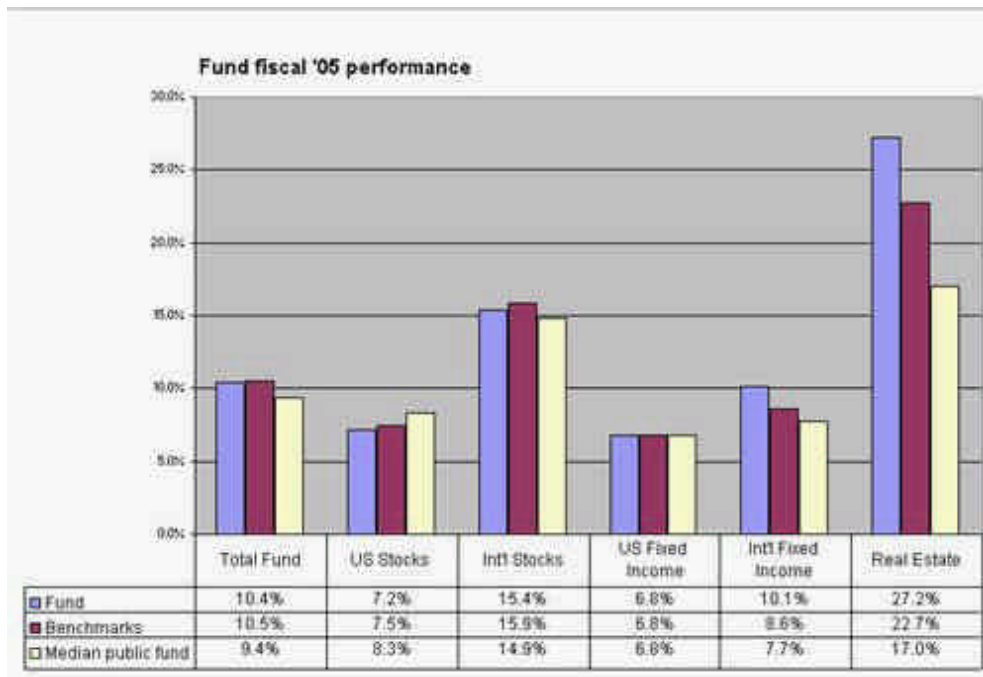
**Analysis of results and challenges:** To achieve a target total rate of return, the Board of Trustees manages risk by strategically allocating the Fund among stocks, bonds, real estate, and recently, alternative investments. Different types of assets are influenced differently by factors such as the economic cycle, interest rates, inflation and fiscal policy. A mix of asset types whose returns move out of sync with one another moderates the total Fund's volatility.

Each year the Board fine-tunes its asset allocation to adjust to changes in the market environment. Its current goal is to earn about 5 percent over the rate of inflation in the long run. That means, in any 10-year period, the average real return (the return after inflation) should be around 5 percent.

**A1: Strategy - Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return**

**Target #1:** The Fund's rate of return meets or exceeds the composite investment performance benchmark adopted by the Board

**Measure #1:** The Fund's rate of return versus the investment performance benchmark



#### APFC total return versus Benchmark return

Year	APFC Return	Benchmark
2001	-3.26%	-4.46%
2002	-2.24%	-3.65%
2003	4.46%	4.80%
2004	14.2%	14.1%
2005	10.4%	10.5%

**Analysis of results and challenges:** Experts agree that over 90% of performance (return) is attributable to the asset allocation decision. We anticipate evaluating expanded asset class opportunities in the future with the goal of increasing total return and further diversifying the funds asset mix.

#### A2: Strategy - Control operation and investment management expenses

**Target #1:** APFC expenses are within the lower 25th percentile of cost to assets managed compared to similar funds

**Measure #1:** APFC ratio of cost to assets managed compared to similar funds

#### APFC ratio of cost to assets compared to similar funds

Year		APFC	Median	YTD Total
2005	Equities-Domestic	.20%	.34%	NA
2005	Equities-Non Domestic	.21%	.45%	NA
2005	Fixed Income-Domestic	.02%	.17%	NA
2005	Fixed Income-Non Domestic	.17%	.26%	NA

**Analysis of results and challenges:** Survey data as of 12/31/2001 for other funds greater than \$10 billion. Survey does not include expenses for managing Real Estate. APFC used Callan Associates Inc. 2002 Fund Sponsor Cost of Doing Business Survey for this comparison. This survey is only produced every few years and is the only one that compares funds that are similar in size.

APFC FY05 costs were approximately \$48.3 million or .15%. That equates to 15 cents for every \$100 of fund value. Other large institutional fund expenses were approximately 28.2 cents for every \$100 dollars of fund

value in 2001.

Expenses and operational efficiencies have a direct affect on returns over time. APFC will continue to control investment expense by negotiating appropriate fee structures and looking for operational efficiencies.

## **B: Result - Provide Alaskans with complete and timely information on Fund activities and issues**

**Target #1:** Meet 100% of statutory and communication plan guidelines for disseminating information

**Measure #1:** % of communication target objectives completed

Year	% of tasks completed
2002	NA
2003	NA
2004	100%
2005	100%

**Analysis of results and challenges:** The Board and staff believe it is critical to practice good corporate governance by holding ourselves accountable to the people of Alaska. We believe that it is critical to be as clear and open as possible regarding decisions made and the resulting Fund performance.

## **B1: Strategy - Develop and implement an annual communications plan**

**Target #1:** Complete 100% of the tasks in the communications plan

**Measure #1:** % of communications plan tasks completed

Year	% of tasks completed
2004	100%
2005	100%

**Analysis of results and challenges:** APF is a public fund with high visibility and importance to Alaskans. The Corporation must be accountable and maintain the public trust by communicating to Alaskans effectively and efficiently. We expect that the communication plan will include additional outreach as the Corporation provides information for constitutional amendment on Percent of Market Value (POMV).

## **Key Component Challenges**

- Plan for and manage investment risk incorporating the capital market assumptions and projected volatility for the Fund.
- Continue to promote a constitutional amendment to adopt a payout rule based on the percentage of market value (POMV).
- Ensure investment policies maintain the balance between the Fund's competing mandates of protecting the Fund to benefit future generations and producing income to benefit current generations.
- Implementation of the Corporation's new investment authority.

## **Significant Changes in Results to be Delivered in FY2007**

Work to adopt a payout method which is directly related to the Fund's 5% real rate of return goal versus an income based payout method.

## **Major Component Accomplishments in 2005**

- The Fund had a 10.4% total return and 7.7% real return for FY2005.
- The Fund increased by \$2.6 billion after accounting for the Alaska Permanent Fund Dividend distribution and

- other appropriations.
- HB215 Delegation of Investment Authority passed.
- Two new asset classes were funded.

## Statutory and Regulatory Authority

AS 37.13 Alaska Permanent Fund and Corporation

Contact Information
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**APFC Operations  
Component Financial Summary**

*All dollars shown in thousands*

	<b>FY2005 Actuals</b>	<b>FY2006 Management Plan</b>	<b>FY2007 Governor</b>
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	3,186.7	3,848.9	4,375.3
72000 Travel	213.5	272.6	294.5
73000 Services	2,678.5	3,491.7	3,546.5
74000 Commodities	131.4	113.2	125.7
75000 Capital Outlay	84.2	95.0	85.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>6,294.3</b>	<b>7,821.4</b>	<b>8,427.0</b>
<b>Funding Sources:</b>			
1105 Alaska Permanent Fund Corporation Receipts	6,294.3	7,821.4	8,427.0
<b>Funding Totals</b>	<b>6,294.3</b>	<b>7,821.4</b>	<b>8,427.0</b>

**Summary of Component Budget Changes  
From FY2006 Management Plan to FY2007 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2006 Management Plan</b>	<b>0.0</b>	<b>0.0</b>	<b>7,821.4</b>	<b>7,821.4</b>
<b>Adjustments which will continue current level of service:</b>				
-Transfer out RE investment due diligence costs to Custody / Manager Fees RDU	0.0	0.0	-300.0	-300.0
-FY 07 Wage Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	72.3	72.3
-FY 07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	5.6	5.6
-FY 07 Retirement Systems Cost Increase	0.0	0.0	139.1	139.1
-FY2007 Wage, Health Insurance, Retirement, and Risk Management Increases for Division of Personnel	0.0	0.0	2.7	2.7
<b>Proposed budget increases:</b>				
-New Positions -- Sr Inv Officer & Sr. Accountant	0.0	0.0	300.5	300.5
-Increased Due Diligence due to complex investment environment	0.0	0.0	376.4	376.4
-Risk Management Self-Insurance Funding Increase	0.0	0.0	9.0	9.0
<b>FY2007 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>8,427.0</b>	<b>8,427.0</b>



**APFC Operations  
Personal Services Information**

<b>Authorized Positions</b>		<b>Personal Services Costs</b>	
<b>FY2006 Management Plan</b>		<b>FY2007 Governor</b>	
Full-time	32	34	Annual Salaries 3,021,169
Part-time	0	0	COLA 79,340
Nonpermanent	2	2	Premium Pay 0
			Annual Benefits 1,350,838
			Less 1.71% Vacancy Factor (76,047)
			Lump Sum Premium Pay 0
<b>Totals</b>	<b>34</b>	<b>36</b>	<b>Total Personal Services 4,375,300</b>

**Position Classification Summary**

<b>Job Class Title</b>	<b>Anchorage</b>	<b>Fairbanks</b>	<b>Juneau</b>	<b>Others</b>	<b>Total</b>
Accountant	0	0	4	0	4
Administrative Assistant	0	0	2	0	2
Administrative Officer	0	0	2	0	2
Administrative Specialist	0	0	3	0	3
Chief Investment Officer	0	0	1	0	1
Chief Operating Officer-PFC	0	0	1	0	1
Controller	0	0	1	0	1
Dir of Information Technology	0	0	1	0	1
Director of Communications-PFC	0	0	1	0	1
Director of Finance	0	0	1	0	1
Executive Director, PFC	0	0	1	0	1
Executive Secretary	0	0	1	0	1
Executive Secretary I	0	0	1	0	1
Information Technology Spec	0	0	2	0	2
Intern	0	0	2	0	2
Investment Associate	0	0	1	0	1
Investment Officer	0	0	7	0	7
Secretary	0	0	1	0	1
Sr Information Technology Spec	0	0	1	0	1
Sr. Investment Officer	0	0	1	0	1
Sr. Portfolio Accountant	0	0	1	0	1
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>36</b>	<b>0</b>	<b>36</b>